



# PG&E Corporation: Preparing For the Future

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# Cautionary Statement Regarding Forward-Looking Information

This presentation contains forward-looking statements regarding management's guidance for PG&E Corporation's 2007 and 2008 earnings per share from operations, targeted average annual growth rate for earnings per share from operations, anticipated dividend growth, as well as management's projections regarding Pacific Gas and Electric Company's (Utility) capital expenditures, rate base and rate base growth, future electricity resources, and energy efficiency funding levels. These statements are based on current expectations and various assumptions which management believes are reasonable, including that substantial capital investments are made in Utility business over the 2007-2011 period, Utility rate base averages \$17 billion in 2007 and \$18.7 billion in 2008, that the Utility earns at least its authorized rate of return on equity, and that the Utility's ratemaking capital structure is maintained at 52 percent equity. These statements and assumptions are necessarily subject to various risks and uncertainties, the realization or resolution of which are outside of management's control. Actual results may differ materially. Factors that could cause actual results to differ materially include:

- Utility's ability to timely recover costs through rates;
- the outcome of regulatory proceedings, including ratemaking proceedings pending at the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission;
- the adequacy and price of electricity and natural gas supplies, and the ability of the Utility to manage and respond to the volatility of the electricity and natural gas markets;
- the effect of weather, storms, earthquakes, fires, floods, disease, other natural disasters, explosions, accidents, mechanical breakdowns, acts of terrorism, and other events or hazards that could affect the Utility's facilities and operations, its customers, and third parties on which the Utility relies;
- the potential impacts of climate change on the Utility's electricity and natural gas business;
- changes in customer demand for electricity and natural gas resulting from unanticipated population growth or decline, general economic and financial market conditions, changes in technology including the development of alternative energy sources, or other reasons;
- operating performance of the Utility's Diablo Canyon nuclear generating facilities (Diablo Canyon), the occurrence of unplanned outages at Diablo Canyon, or the temporary or permanent cessation of operations at Diablo Canyon;
- the ability of the Utility to recognize benefits from its initiatives to improve its business processes and customer service;
- the ability of the Utility to timely complete its planned capital investment projects;
- the impact of changes in federal or state laws, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- the impact of changing wholesale electric or gas market rules, including the California Independent System Operator's new rules to restructure the California wholesale electricity market;
- how the CPUC administers the conditions imposed on PG&E Corporation when it became the Utility's holding company;
- the extent to which PG&E Corporation or the Utility incur costs and liabilities in connection with pending litigation that are not recoverable through rates, from third parties, or through insurance recoveries;
- the ability of PG&E Corporation and/or the Utility to access capital markets and other sources of credit;
- the impact of environmental laws and regulations and the costs of compliance and remediation;
- the effect of municipalization, direct access, community choice aggregation, or other forms of bypass, and
- other risks and factors disclosed in PG&E Corporation's and Pacific Gas and Electric Company's SEC reports.



# Key Takeaways From Today's Discussion

- PCG is a core utility holding, delivering strong investment opportunities and low regulatory risk.
- Potential earnings “upsides” in 2008 and beyond are not included in guidance.
- Emerging growth strategies present additional business opportunities.

# Agenda For Today

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- PG&E Corporation overview
- Regulatory business drivers
- Core investment – focus and strategy
- PCG earnings outlook
- Energy policy and emerging opportunities

# Pacific Gas and Electric Company (PG&E)



- \$12.5 B in Revenues
- \$34.8 B in Assets
- 5.1 MM Electric/4.2 MM Gas Customers
- \$18 B+ Market Capitalization

Business Unit	2006 Rate Base (\$B)	Regulation
Electric and gas distribution	\$10.3	CPUC
Electric generation	\$1.8	CPUC
Gas transmission	\$1.5	CPUC
Electric transmission	\$2.3	FERC
<b>PCG Total Business</b>	<b>\$15.9</b>	<b>85% CPUC/15% FERC</b>

# PG&E Vision



# Our Business Strategy

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- Competitive customer focus
- Operational excellence
- Regulatory alignment
- Environmental leadership
- Community involvement

# A Diverse Leadership Team

Experienced leaders joined the team in 2006:



**Bill Morrow**  
President & Chief Operating Officer  
Pacific Gas and Electric Company



**Jack Keenan**  
SVP, Generation & Chief Nuclear Officer  
Pacific Gas and Electric Company



**Helen Burt**  
SVP & Chief Customer Officer  
Pacific Gas and Electric Company



**Hyun Park**  
SVP & General Counsel  
PG&E Corporation

# Regulated Business Drivers

- Statewide Energy Strategy
  - California Energy Action Plan
  - Renewable Portfolio Standard
  - AB32 Greenhouse Gas Legislation
- Constructive Regulatory Environment
  - Decoupling/Balancing Account Treatment
  - Purchased Power and Fuel Costs Pass-Through
  - Pre-Approved CapEx

# Core Business Investment Opportunities

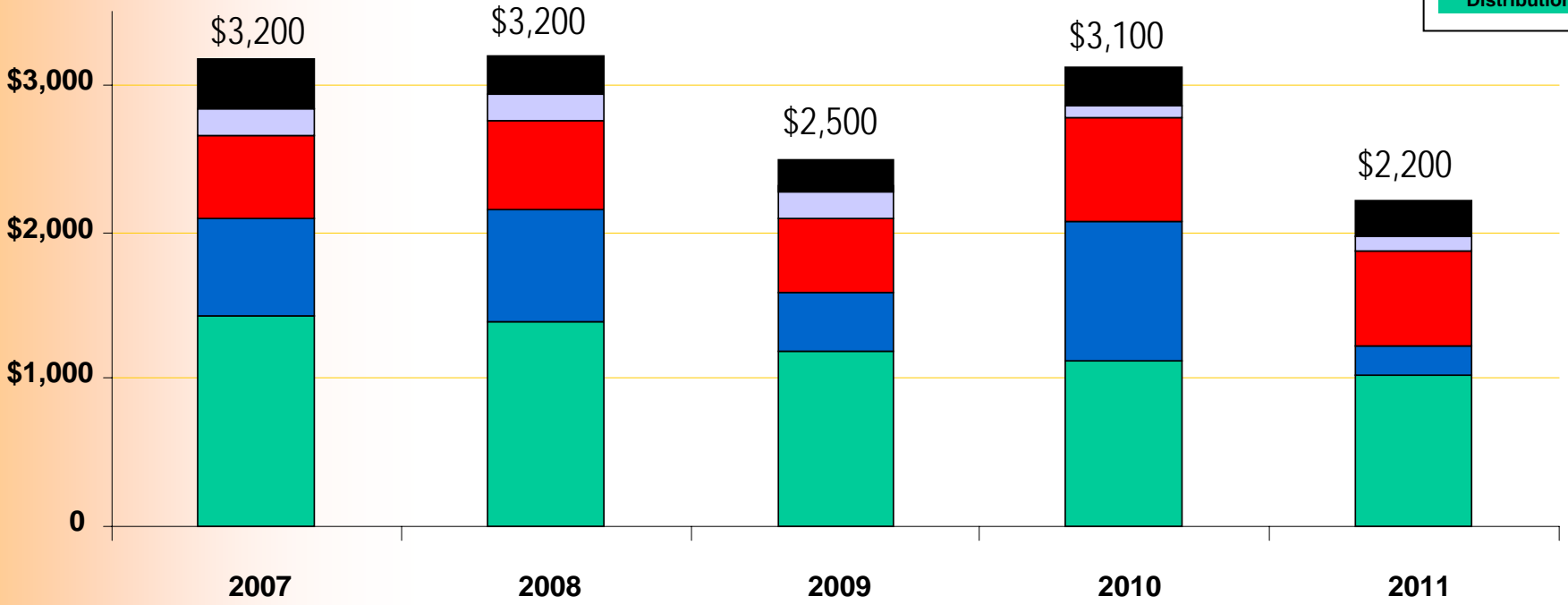
- Electric and gas distribution
- Electric transmission
  - System reliability
  - Growth to reach renewable resources
- Natural gas transmission and storage
- Electric resource requirements
  - Energy efficiency
  - Renewables
  - Conventional generation

# Capital Expenditure Outlook

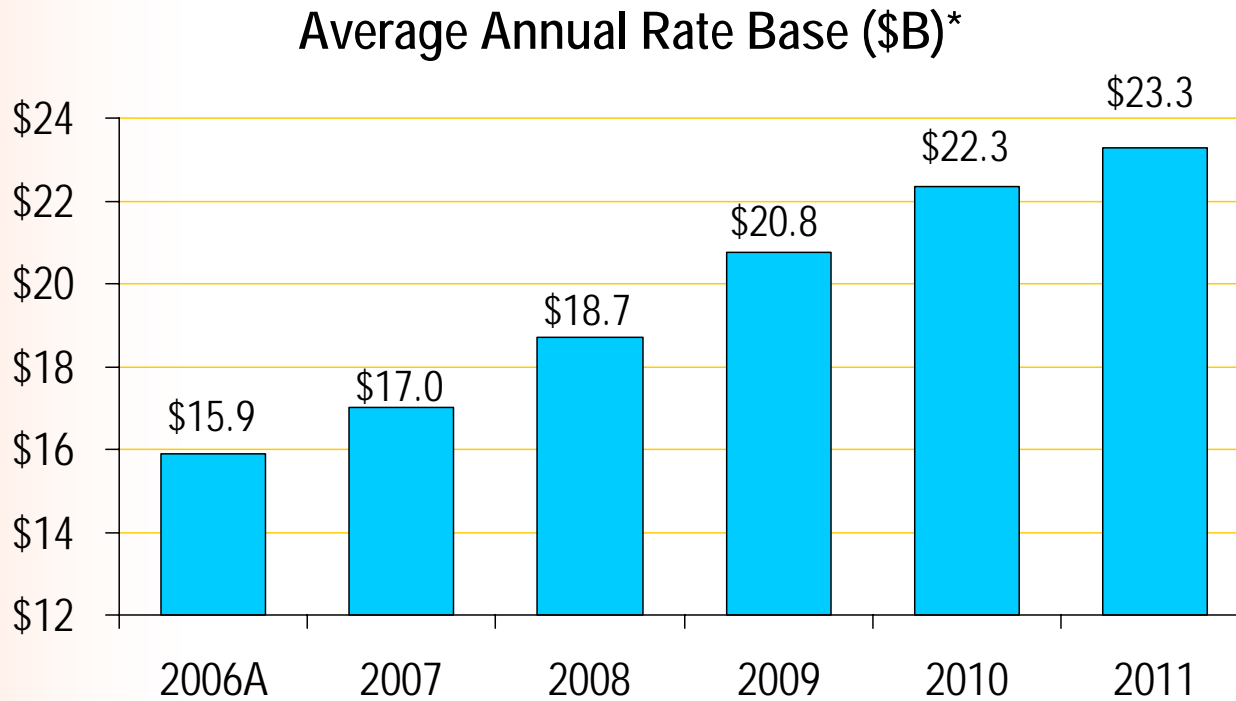
## Capital Expenditures (\$MM)

**Chart Key**

- Common Plant
- Gas Trans.
- Electric Trans.
- Generation
- Distribution



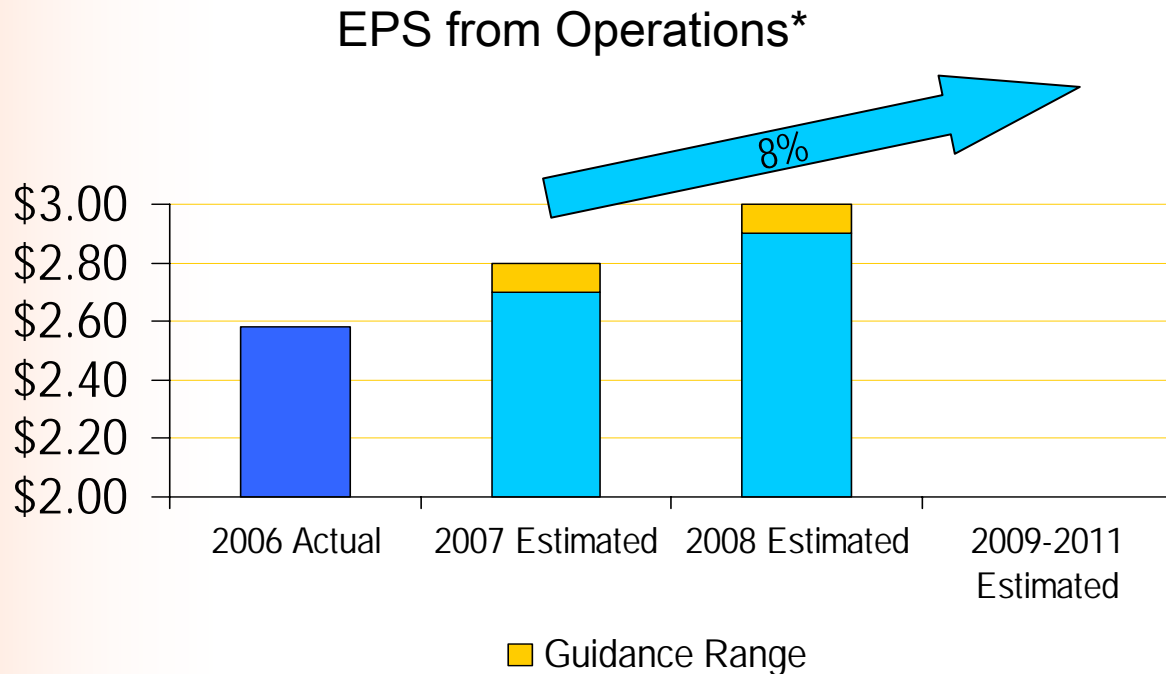
# Rate Base Growth



\* Projected 2007-2011 rate base is not adjusted for the impact of the carrying cost credit that primarily results from the second series of the Energy Recovery Bonds. Earnings will be reduced by an amount equal to the deferred tax balance associated with the Energy Recovery Bonds regulatory asset, multiplied by the utility's equity ratio and by its equity return. The carrying cost credit declines to zero when the taxes are fully paid in 2012.

# EPS Guidance

EPS from Operations\*: 2007 guidance of \$2.70-\$2.80 per share  
2008 guidance of \$2.90-\$3.00 per share

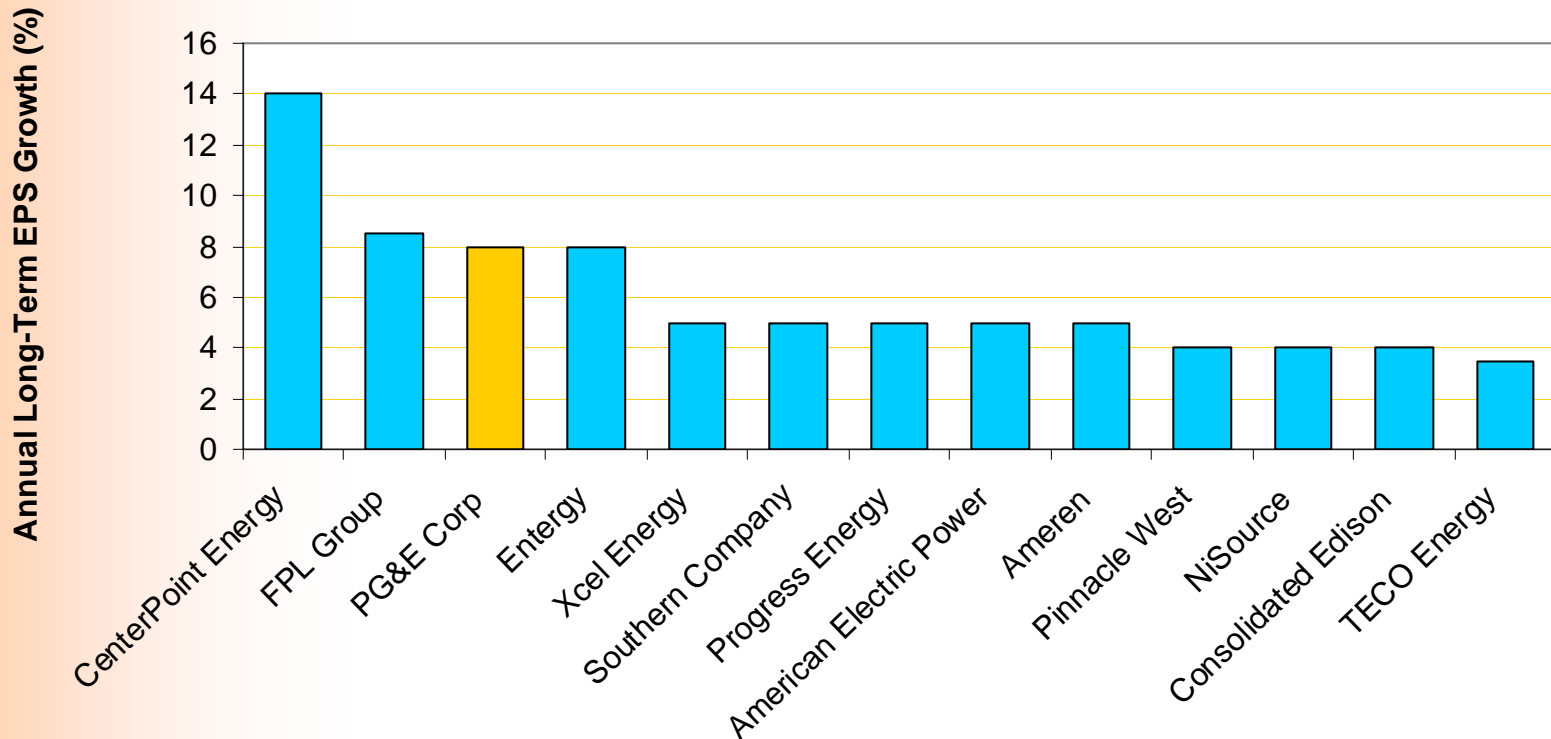


\* Reg G reconciliation to GAAP for 2006 EPS from Operations and 2007 and 2008 EPS Guidance available in Appendix and at [www.pge-corp.com](http://www.pge-corp.com)

# EPS Growth – Comparator Group

EPS from operations annual growth targeted to average 8% for 2007 – 2011

Survey of analyst estimates of EPS growth:



Source: Thomson IBIS long-term EPS Growth Consensus Estimate Median May 8, 2007

# Potential Earnings Upsides

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- Transformation benefits
- Energy efficiency incentives
- Additional transmission and generation investments

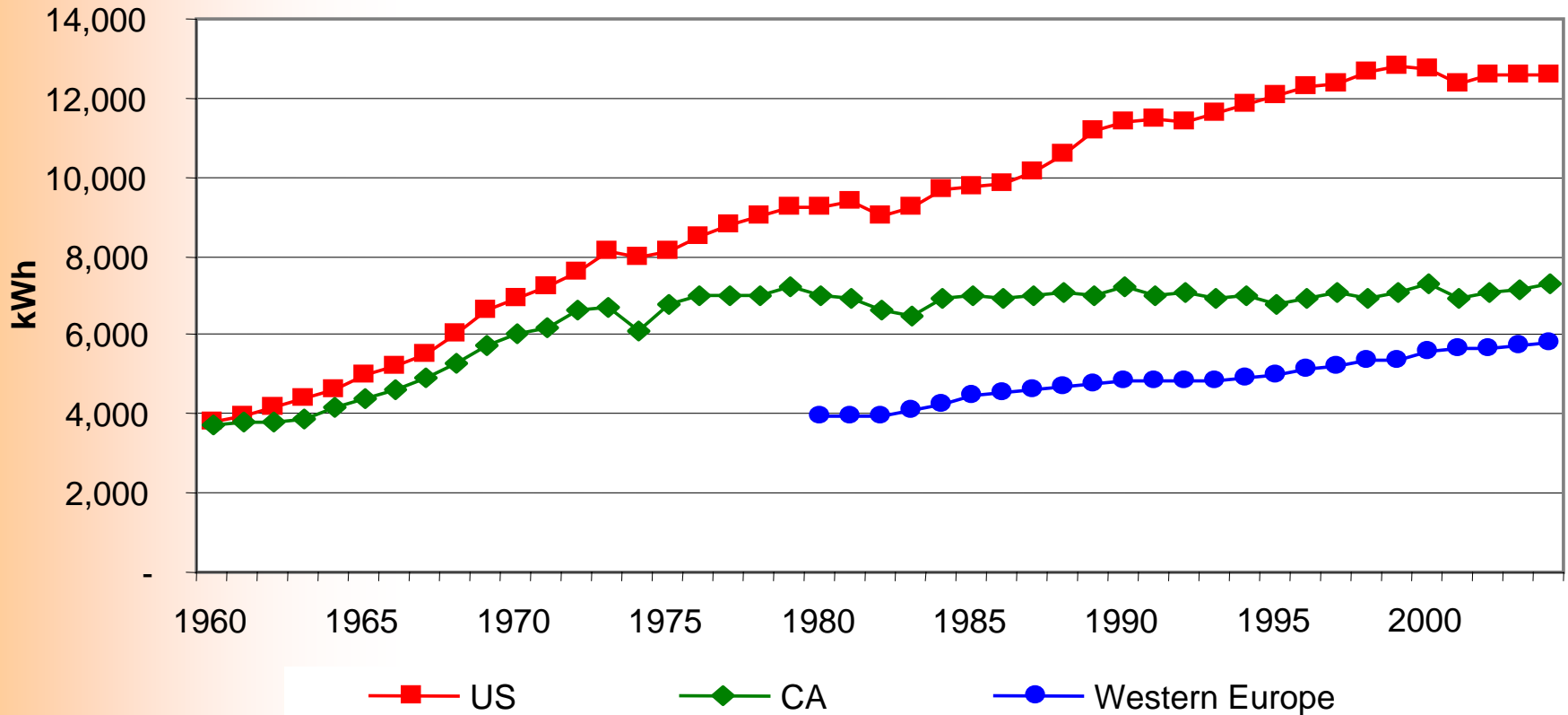
# California Energy Policy

PG&E's resource investment strategy is aligned with California's Energy Action Plan "preferred loading order":

1. Energy Efficiency
2. Demand Response
3. Renewable Resources
4. Distributed Generation
5. Conventional Resources

# California's Success With Energy Efficiency

Over the past 30 years, California per capita energy use has remained relatively flat compared to the 50% increase in U.S. per capita energy use.



Source: California Energy Commission

# Changing Legislative Environment for GHG

## Recent greenhouse gas legislation:

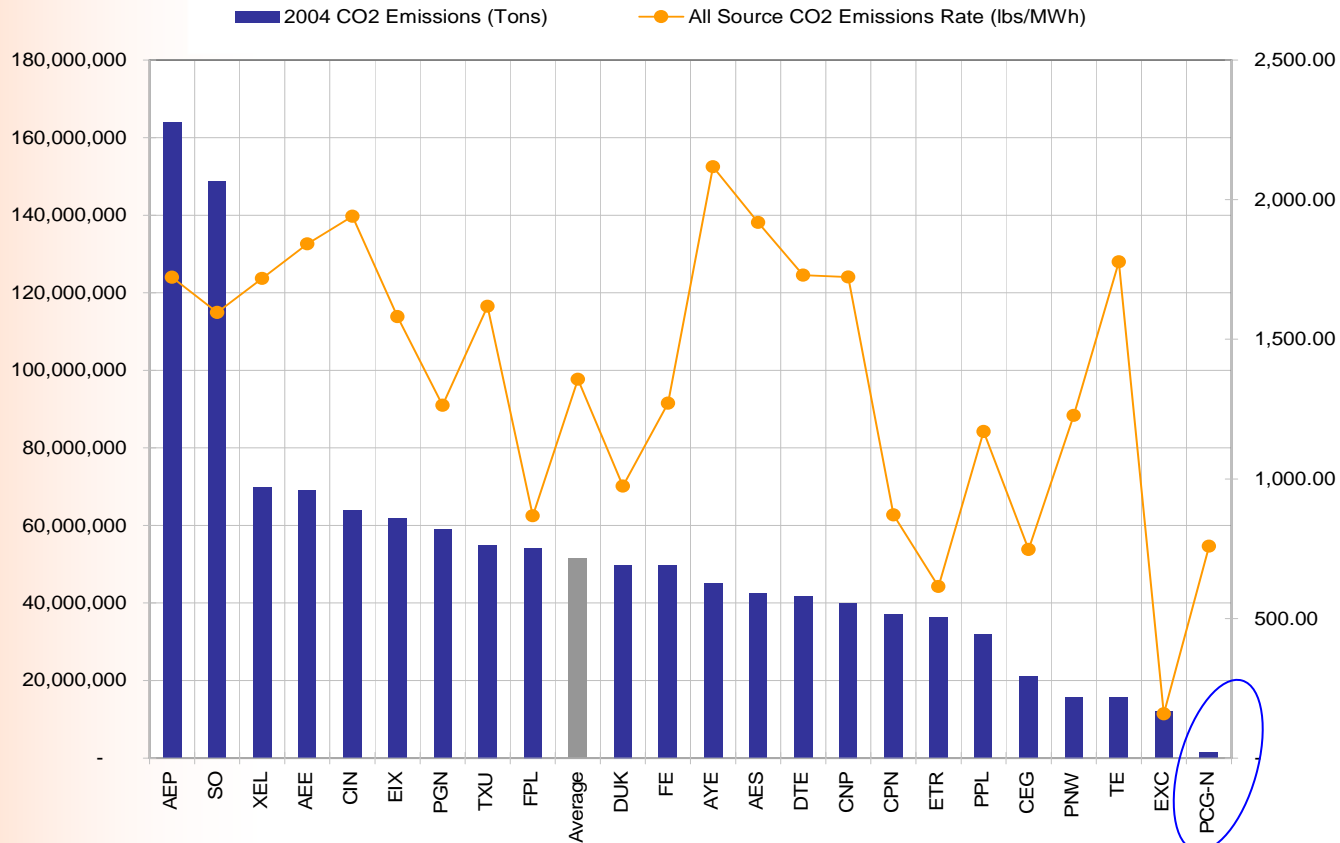
- California global warming legislation enacted in 2006
- Federal legislation expected in 2 to 4 years

## PG&E supports:

- Mandatory market-based approach
- Encouraging early action toward goals before full regulatory implementation
- Recognition of prior actions
- Pursuit of all cost-effective reductions in greenhouse gases
- International cooperation

# Relative CO<sub>2</sub> Emissions Rates - Generation

## 2004 CO<sub>2</sub> Emissions and Emission Rates\*



Source: Innovest

\* Comparison companies selected by Innovest. Data include emissions of regulated and unregulated plants. 2004 is the most recent data available.

# Industry Leadership and Emerging Growth

PG&E is looking ahead to the future of utility services

- Clean/renewable fuel technologies
- Smart Energy Web
- Plug-in anywhere technologies
- Sustainable Energy Communities

# PCG Investment Opportunity Summary

- First quartile EPS growth
  - Approved infrastructure investment
- Potential upsides
  - Transformation benefits
  - Energy efficiency incentives
  - Additional transmission and generation investment
- New Products and Services
  - Diverse management team with a competitive mindset
  - Record of innovation, well-positioned for industry change